TBTC
Tularosa Basin Telephone Co., Inc.

EX PARTE OR LATE FILED

CHARLES M. FERRELL
Vice President
General Manager

8

March 11, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Dear Ms. Salas:

RE: Ex Parte Notice, CC Docket No. 96-45 and DA 96-1097

On March 6, 1998, Donald Massey, Roosevelt County Telephone Cooperative, Tom Phelps, Eastern New Mexico Telephone Cooperative, Evelyn Jerden, Western New Mexico Telephone Co., Sam Ray, New Mexico Exchange Group and myself from Tularosa Basin Telephone Co. (TBTC), visited with Commissioner Tristani and Paul Gallant, Legal Advisor to Commissioner Tristani. We discussed issues related to the 75%/25% Allocation of the New Universal Support Mechanism, a letter from USTA's President Roy M. Neel to Chairman Reed Hundt concerning Universal Service, and TBTC's Petition for Modification of Conditions Adopted by the Commission by its Decision July 11, 1996 in DA 96-1097.

An original and one copy of this ex parte notice, with the following attachments are being filed:

1. Revenue analysis 75%/25% Allocation of New Universal Service Support on Three Companies in New Mexico.

2. TBTC's Petition for Modification of Conditions, DA 96-1097.

3. Letter from USTA's President Roy M. Neel to Chairman Reed Hundt on Universal Service, dated August 25, 1997.

Please include a copy of this notice in the public record of these proceedings.

Respectfully submitted,

Charles M. Ferrell

Charles M. Ferrell
General Manager

No. of Copies rec'd 0+1

Enclosure

ATTACHMENT 1

IMPACT OF FCC PROPOSED 75%/25% ALLOCATION OF NEW UNIVERSAL SERVICE SUPPORT FOR THE FOLLOWING NEW MEXICO TELEPHONE COMPANIES

BACA VALLEY TELEPHONE CO.
LA JICARITA RURAL TELEPHONE COOP.
ROOSEVELT COUNTY RURAL TELEPHONE COOP.
(4,808 ACCESS LINES)

	INTERSTATE:	INTERSTATE REVENUES:	REVENUES SHIFT TO STATE:		RESULTS OF PROPOSED 75%/25% ALLOCATION:
TRAFFIC SENSITIVE - UNWEIGHTED	$ 670,075	$ 670,075		Traffic Sensitive - Unweighted	$ 670,075
TRAFFIC SENSITIVE - DEM WEIGHTED	$ 557,614	$ 139,404	$ 418,211	Traffic Sensitive - Dem Weighted	$ 139,404
CARRIER COMMON LINE	$ 278,372	$ 278,372		Carrier Common Line	$ 278,372
LONG TERM SUPPORT	$ 631,012	$ 157,753	$ 473,259	Long Term Support	$ 157,753
UNIVERSAL SERVICE FUNDING	$ 1,268,172	$ 317,043	$ 951,129	USF	$ 317,043
*INTERSTATE REVENUES	$ 3,405,245			*Interstate Revenues	$ 1,562,647
INTRASTATE	$ 1,460,539			Intrastate	$ 3,303,138
TOTAL	$ 4,865,784	$ 1,562,647	$ 1,842,599	TOTAL	$ 4,865,784
ADDITIONAL REVENUE REQUIREMENT PER ACCESS LINE PER MONTH			$ 31.94		

*INTERSTATE REVENUES DO NOT INCLUDE BILLING AND COLLECTION

RATES INFORMATION

RESIDENTIAL RATE $19.16
BUSINESS RATE $25.89

ADDITIONAL REQUIREMENT

ADDITIONAL REVENUE PER ACCESS LINE PER MONTH - $31.94

ATTACHMENT 2

Post-it® Fax Note 7671	Date 3/9/98	# of pages ▶ 29
To Charles Ferrell	From Kraskin, Lesse &	
Co./Dept	Co Cosson	

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the matter of

Tularosa Basin Telephone Company

Petition for Modification of Conditions
Adopted by the Commission by its
Decision July 11, 1996
in DA 96-1097.

RECEIVED
FEB 27 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

To: Chief, Common Carrier Bureau:

EXPEDITED REQUEST FOR ELIMINATION OR MODIFICATION OF WAIVER CONDITIONS

Tularosa Basin Telephone Company

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the matter of

Tularosa Basin Telephone Company

Petition for Modification of Conditions
Adopted by the Commission by its
Decision July 11, 1996
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To: Chief, Common Carrier Bureau:

EXPEDITED REQUEST FOR ELIMINATION OR MODIFICATION OF WAIVER CONDITIONS

Tularosa Basin Telephone Company

SUMMARY

Tularosa Basin Telephone Company (TBTC) respectfully requests that the Commission act expeditiously to remove the universal service fund (USF) cap which was imposed with the grant of TBTC's waiver request in Decision DA 96-1097. Tularosa also requests inclusion by the Commission in any blanket removal of such caps which may take place in related or similar proceedings. The cap on USF funding provided to TBTC inhibits its ability to provide adequate telephone service in its rural service areas and does not serve a useful purpose. We request that the Universal Service Fund Administrator (USAC) be directed, at a minimum, to adjust payments retroactive to January 1, 1998 to reflect the same USF treatment for TBTC as is afforded all other incumbent local exchange carriers (ILECs) designated as Eligible Carriers which are not restricted by an arbitrary cap on funding eligibility. Since its inception, actual costs incurred by TBTC have far exceeded the initial estimate. A detailed discussion of the variances of the actual costs incurred as compared to the original cost estimate is included with this Petition.

In the alternative, TBTC requests that its cap be modified to reflect actual costs which have been experienced since TBTC began providing service. Questions concerning this filing can be directed to Charles M. Ferrell, P. O. Box 550 Tularosa, NM 88352. Telephone 505 585 9800

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the matter of

Tularosa Basin Telephone Company

Petition for Modification of Conditions
Adopted by the Commission by its
Decision July 11, 1996
in DA 96-1097.

To: Chief, Common Carrier Bureau:

EXPEDITED REQUEST FOR ELIMINATION OR MODIFICATION OF WAIVER CONDITIONS

INTRODUCTION AND BACKGROUND

In the initial waiver grant, TBTC was granted a study area waiver which allowed it to acquire three rural exchanges from US West in southern New Mexico. The exchanges of Tularosa, Carrizozo, and Cloudcroft serve 4584 subscribers scattered over 1269 square miles. In granting the study area waiver, the Commission established a cap on USF payments of $148,000 annually. Immediately following the acquisition, which occurred on August 16, 1996, TBTC began investing in infrastructure in order to bring necessary service improvements to existing customers and expand service coverage to unserved areas.[1] Caps on USF payments have been a standard restriction contained in

[1] TBTC expanded service to the community of Bentwood, which was previously unserved. Today 12 subscribers receive service as a result of this expansion. In addition, expansion into unserved areas with an estimated 8 potential subscribers is contemplated. Until sufficient financial resources become available,

most Study Area Waivers with the first Cap adopted in the Memorandum Opinion and Order in the Eagle Telecommunications Petition for Waiver[2]. The Commission has stated numerous times that USF Caps are necessary in order to mitigate the possibility of unforeseen and uncontrolled growth in the size of the USF fund.[3]

The Telecommunications Act of 1996 required the Commission to review all aspects of Universal Service.[4] In addition, the legislation requires that carriers receiving funding be designated as Eligible Carriers by their state commission. TBTC received such designation from the New Mexico State Corporation Commission on October 23, 1997.[5] As an Eligible Carrier, TBTC has the responsibility to offer all USF-supported services throughout its service territory. In return, the legislation requires funding which is "specific, predictable and sufficient."[6]

Immediately following its acquisition of the US West exchanges, TBTC began a comprehensive plan of service improvements requiring substantial investments. TBTC has improved existing service in the areas they have acquired by replacing switches, replacing and expanding cable facilities and extending service to previously unserved

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this will not be possible. In addition, TBTC is now providing service to over 150 other residential subscribers that did not have service when TBTC began operations. A portion of these additional subscribers are the result of normal growth.

[2] See US West Communications, Inc., and Eagle Telecommunications, Inc., Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules, *Memorandum Opinion and Order,* 10 FCC Rcd 1771. (1995) ("Eagle Study Area Order:)

[3] This concern has been mitigated by the indexed cap adopted by the Commission which restricts growth in the total size of the fund by the overall growth in access lines for all carriers.

[4]See Telecommunications Act of 1996 at Section 254.

[5] State Corporation Commission Order 97-93-TC attached as Attachment No. 1.

[6] See Telecommunications Act of 1996 at Section 254(b)(5).

customers. The establishment of a cap on its Universal Service funding has proven harmful to TBTC by inhibiting its ability to extend and improve telephone service in many areas which were receiving substandard telephone service or no telephone service at all. TBTC's financial position has reached such dire straits that it is in danger of failing to achieve the financial results required by its lenders.[7] It simply cannot meet its obligations without a timely decision by the Commission authorizing sufficient revenue sources. Without additional USF payment, as justified by actual expenditures and the Commission's own rules, TBTC is being denied "sufficient" funding to ensure the continued availability of Universal Service in its rural service area and it may be forced to curtail needed investments.

PREVIOUSLY ESTABLISHED CAPS ON USF COST RECOVERY HAVE BEEN SUPERSEDED BY THE UNIVERSAL SERVICE RULES CONTAINED IN PART 54.

Section 54.305 of the Commission's rules specifically establishes the methodology to be utilized in establishing USF payments when an exchange is sold by a LEC which is eligible for USF payments. It states:

> "54.305 Sale or transfer of exchanges.
>
> A carrier that acquires telephone exchanges from an unaffiliated carrier shall receive universal service support for the acquired exchanges at the same per line support levels for which those exchanges were eligible prior to the transfer of the exchanges. A carrier that has entered into a binding commitment to buy exchanges prior to May 7, 1997 will receive support for the newly acquired lines based upon the average cost of all of its lines, both those newly acquired and those it has prior to execution of the sales agreement."

[7] See letter from Fred Matthes, Vice President of CoBank dated May 12, 1997 identified as Attachment No. 2.

TBTC had a binding commitment to purchase exchange property on July 29, 1994, far earlier than the date of May 7, 1997 contained in the current rules. It is apparent that these rules were designed specifically to address the situation faced by TBTC as well as for any future transfer of exchanges which might take place. The rules make no reference to any acquisition situation which should cause an acquiring company to be treated differently than as described in the rule. The rules specifically state that support will be based upon "the average cost of all of its lines." The existing cap does not allow USF to be based upon the "average cost" of TBTC's lines only because TBTC had the misfortune of purchasing its exchanges prior to establishment of Part 54 of the Commission's rules. Since Part 54 has been adopted, there is no justification for continued enforcement of TBTC's USF cap. Fairness and consistency would dictate that TBTC be treated the same as any company involved in any future sales of exchanges which will be governed by Commission rule. A proper interpretation of this one rule consistently applied should be sufficient for the Commission to discontinue the enforcement of TBTC's cap immediately.

COMPANY SPECIFIC CAPS ARE NOT NEEDED TO MITIGATE GROWTH IN THE SIZE OF THE USF FUND.

In numerous decisions on requests for study area waivers, the Commission has expressed concern that granting of study area waivers without funding restrictions could cause the size of the fund to grow to an unreasonable size. The Commission recognizes that this concern has been mitigated by implementation of the indexed cap on the USF. Under the indexed cap, growth in the size of the fund is limited by the growth in access lines nationwide.

An additional concern expressed by the Commission is that, if the indexed cap is reached, (which it has in 1998) any additional USF payment to a company granted a study area waiver would result in payments to other high cost LECs being reduced, thereby inhibiting other high cost LEC's ability to offer services supported by the USF. TBTC shares the Commission's concern that sufficient and predictable payments to all high cost LECs are necessary and required by the Telecommunications Act of 1996 and would agree that a consistent means of calculating support for each and every eligible carrier, as specified in Section 54.305, will result in equitable payments which are sufficient and predictable. The continuation of payment levels to non capped LECs should not come at the expense of TBTC, which had the misfortune of obtaining its study area waiver in a narrow period of time before the USF rules in Part 54 were established. If payment of appropriately calculated USF funds for all eligible carriers based on established procedures of "average cost per line" results in payments calculated which, in total, exceed the indexed cap, then it is more appropriate, and more reflective of the statute, to raise the indexed cap in order to spread the shortfall over the broadest population of interstate service providers. This would be a far more equitable solution than requiring a select few high cost LECs subject to company specific USF caps to shoulder the entire burden based on old, and admittedly flawed estimates of future costs. To make matters worse, TBTC, which presently sees its USF payment reduced as a result of the cap, must now contribute to the funding of the USF based on its provision of interstate service. The present system of caps also flies in the face of the USF funding mandated by the Telecommunications Act.[8]

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[8] The Telecommunications Act of 1996 at Section 254(e) requires that "every telecommunications carrier

The present system provides sufficient funding to encourage the provision of universal telephone service only in those areas served by Eligible Carriers unrestricted by USF caps at the expense of capped LECs such as TBTC. This result most certainly does not provide "specific, predictable and sufficient" universal service funding for all Eligible Carriers as required by the Telecommunications Act.

CONTINUED ENFORCEMENT OF TBTC's USF CAP MAY INHIBIT COMPETITIVE ENTRY IN ITS SERVICE AREAS.

The Commission has established rules designed to provide USF funds to competitive LECs in a competitively neutral fashion by allowing competitive LECs to receive the same amount of USF as the incumbent LEC. Section 54.307(1) of the Commission's rules states:

> "A competitive eligible telecommunications carrier shall receive support for each line it serves based on the support the ILEC receives for each line."

Continued application of TBTC's cap not only inhibits TBTC's ability to improve and expand service due to lack of sufficient funding, it also reduces the desirability of its areas to potential market entrants since any USF funding which may be available to competitive LECs will be less than in other similar rural areas where a USF cap does not exist. Eventually this situation will no longer exist when the USF calculated in TBTC's service area is based on forward-looking economic costs.[9] The Commission has stated

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that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable and sufficient mechanisms established by the Commission to preserve and advance universal service." TBTC's USF cap has the unintended result of forcing TBTC, a company in need of funding support, to contribute far more than its "equitable share" of the USF funding requirements since the cap allows other Eligible carriers to receive funds not otherwise available if TBTC were to receive its funding without the restriction of the cap.

[9] In its Report and Order in CC Docket No. 96-45 released May 8, 1997, the Commission anticipates utilizing forward looking economic costs for small rural LECs not sooner than January 1, 2001.

that, with the use of forward-looking economic cost models for determination of USF, future USF will no longer be based on either the purchaser's or seller's actual costs.[10] We anticipate that use of forward looking economic costs will be applicable to all Eligible Carriers in an area, and past or estimated actual costs will not have any impact on USF payment amounts beginning no earlier than 2001. Until that time, continued enforcement of the cap reduces TBTC's funding to levels below those of similarly situated LECs. Until TBTC's cap is eliminated, either through the use of forward-looking economic costs or the elimination of the cap, as we are proposing, possible competitive entry will be inhibited.

TBTC SHOULD NOT BE PENALIZED FOR ESTIMATING COSTS AT THE TIME OF REQUESTING ITS STUDY AREA WAIVER WHICH LATER PROVED TO BE INSUFFICIENT TO PROVIDE ALL SERVICES REQUIRED TO SATISFY ELIGIBLE CARRIER OBLIGATIONS.

During the study area waiver process, the Commission requested information concerning the amount of USF draw TBTC anticipated (1) at the time the transaction takes place and (2) following the completion of necessary and planned upgrades. The USF amount which the company estimated it would qualify for following the completion of planned upgrades was utilized to establish the cap. The Commission has consistently expressed concern that these forecasts might later prove to be low,[11] thereby justifying the need for a cap. The Commission has taken the position that implementing USF Caps will

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[10] See Memorandum Opinion and Order AAD 96-93 released July 16, 1997 at paragraph 18 granting the study area waiver request of TelHawaii.

[11] See Memorandum Opinion and Order AAD 96-49 released August 29, 1996 at paragraph 10. This Order granted the study area requests of Albion Telephone Company, Cambridge Telephone Co., Fremont Telcom Co., Midvale Telephone Exchange, Inc., and Rockland Telephone Co. Inc. and also establishes USF caps for each.

protect other LECs, which are also dependent on USF payments, from seeing reduced revenues which would ultimately result from the indexed cap threshold being exceeded on a total fund basis. The ultimate result of the cap process is that TBTC may be forced to: (1) forego many necessary upgrades,[12] (2) not expand service to unserved customers, (3) absorb the high costs of providing service in its high cost geographic service areas without the ability to earn a reasonable return. The possibility of any of these three occurrences does not reflect a USF policy which results in "specific, predictable and sufficient" funding.

TBTC'S USF CAP HAS CONTRIBUTED TO FINANCIAL PROBLEMS

In developing its business plan, TBTC anticipated the possibility that there would be up to a two year lag before receipt of USF funds. However, TBTC was unable to anticipate the need for capital expenditures necessary to improve and expand service[13] in costly rural areas which have exceeded its initial budgeted amounts. Until actually operating the exchanges, TBTC found it impossible to identify all facility needs which they would face. Since acquiring the exchanges, TBTC has identified unserved customers that they were not aware of when evaluating the acquisition. If potential customers saw no possibility of obtaining service at a reasonable cost from the previous owners, they did not even apply for service so a held order[14] was not always issued by the

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[12] Upgrading of trunk cable from TBTC main switch to USWC and its remote switches are at capacity. Additional long distance trunks are needed to the USWC meet point and the next T-1 line request to the Cloudcroft exchange will have to be held until the cable route can be upgraded.

[13] TBTC reported trouble index (per 100 customers) for the first full month of operation was 11.3%. In January of 1998 the trouble index was 2.3%.

[14] TBTC received 42 held orders for primary service from the previous serving company. TBTC worked those orders plus another 95 in 1997.

previous owners. Many potential subscribers, since they were not subscribers of the selling company, were not considered sufficiently in the evaluation of possible plant additions at the time of requesting the study area waiver. Until TBTC began providing service and it became public knowledge that telephone service might, at last, be available at a reasonable price,[15] these potential customers were unknown. In attempting to provide service, TBTC has moved forward with plant upgrades beyond what was originally budgeted. They should not be penalized for this commitment to public service while satisfying the obligations they have undertaken as the eligible carrier. The very failure to satisfy the need for telephone service in unserved and underserved areas by the previous owners resulted in pent up demand for service in these areas.

The unanticipated costs incurred leave TBTC in danger of violating certain of its loan covenants. Unless the USF payments are allowed to increase to levels based upon their actual incurred costs rather than the company specific cap, TBTC will have little choice but to reduce construction budgets and/or increase rates for telephone service substantially.

IF THE CAP IS NOT LIFTED, THE COMMISSION SHOULD MOVE QUICKLY TO INCREASE THE CAP AS JUSTIFIED BY THE ACTUAL COST INCURRED IN COMPLETING SERVICE IMPROVEMENTS AND EXPANSION TO UNSERVED CUSTOMERS.

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[15] Since the inception of service, TBTC has added service to 171 new residential lines and 33 new business and special circuit lines. Also, 25 party lines have been regraded to private line service.

Under the current rules, even those investments which qualify for USF funding do not result in increased funding for up to two years. This fact alone has created financial hardship for TBTC. The existence of a USF cap has exacerbated the financial problems of TBTC. Other similarly situated LECs have requested consideration of increased caps more than one year ago and have yet to receive a decision from the Commission.[16] TBTC simply cannot afford such a delay. We are dependent on quick regulatory response to situations which impact the financial health of TBTC and ultimately its service quality.

In order to fully document the changing financial needs of TBTC, we have attached an account by account analysis of the differences in actual expenses and investments incurred by TBTC and those estimates provided at the time the study area waiver was granted. This analysis is identified as Attachment 3.

CONCLUSION

For all of the reasons stated above, TBTC respectfully requests that the Commission immediately eliminate its cap on USF payments and direct USAC to provide USF payments to TBTC under the terms identified in Section 54.305 of the FCC rules and regulations effective no later than January 1, 1998. This may require the Commission to include TBTC in any generic removal of caps for other similarly situated LECs. In the alternative, we request that the cap be increased to reflect actual costs which have been incurred as described on Attachment 3. This second alternative would result in an increase in the USF cap to $581,628. Your prompt attention to this matter is

[16] Table Top Telephone Company filed a request on December 23, 1996 and Midvale Telephone Exchange filed a request on January 16, 1997. Decisions have not been issued in either case.

necessary to insure the continued financial health of TBTC and its ability to bring quality telecommunications service to its citizens residing in its remote service territory.

Respectfully Submitted,

Tularosa Basin Telephone Company

Charles M. Ferrell
General Manager

ATTACHMENT 3

UNITED STATES TELEPHONE ASSOCIATION

August 25, 1997

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M Street, NW - Room 814
Washington, DC 20554

Re: Preserving Universal Service in Rural America

Dear Chairman Hundt:

One of the overriding principles listed by Congress as the basis for the development of a new universal service policy is to ensure that consumers in all regions of the Nation, including customers in rural areas, have access to telecommunications and information services as well as advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas, at rates that are reasonably comparable to rates charged for similar services in urban areas.[1] This section guarantees that customers in rural areas do not become the telecommunications "have nots" of the 21st century.

Congress also recognized that rural telephone companies are sufficiently different from other companies to warrant different regulatory treatment.[2] Such treatment is justified by an examination of the circumstances under which they operate. Rural telephone companies are much more dependent upon access charge revenues than other companies. Approximately sixty percent of their revenues come from access charges, both Federal and state. While rural telephone companies generally have lower prices for local service, there are significant differences in the service itself. The calling scope is typically much smaller for rural telephone companies and customers must make toll calls to reach friends, schools and doctors. Rural telephone companies generally serve a lower number of subscribers per square mile, on average

[1]47 U.S.C. § 254(b)(3).

[2]*See*, for example, 47 U.S.C. at §§ 153(47), 251(c) and 251(b).

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only about nineteen customers. But, this average masks a wide range. Over half of rural companies have eight subscribers or less per square mile. Non-rural companies, on the other hand, have an average of 400 customers per square mile.

The rural company's customer base typically is primarily residential. On average, a rural telephone company's customer base has only eighteen percent business customers. In contrast, non-rural LECs have an average of 36 percent business customers in their customer base.

These circumstances make rural telephone companies especially vulnerable to the loss of even one large customer to competition. The loss in access revenues could be disastrous for the rural telephone company trying to continue serving its high cost, low volume customers.

Rural telephone companies rely heavily on federal universal service support. Rural costs are typically higher than urban costs. These costs are, as noted above, spread among a very small customer base. For example, small rural companies lack the purchasing power of larger companies which prevents them from negotiating volume discounts and utilizing economies of scale to reduce costs. Small, rural companies generally do not have the options available to companies with larger serving areas which would allow them to utilize economies of scope in configuring their network operations.

In its Order on Universal Service, the Commission adopted an appropriate transition plan for rural telephone companies and their customers based on the recommendation of the state members of the Joint Board.[3] This transition plan preserves incentives to invest in the network, protects small businesses located in rural areas and avoids administrative burdens. More important, it properly recognizes that a forward-looking cost proxy model has not been sufficiently developed to be used by any rural company. The transition plan meets the needs of rural companies and adheres to the principles contained in the Act. However, the future for these companies is uncertain.

The Commission concludes that the universal service mechanism for rural, high cost and insular areas will support 25 percent of the difference between the forward-looking economic cost (based on a cost proxy model which has not yet been determined) and the appropriate revenue benchmark (which has not yet been determined). While the Commission notes that rural carriers will begin receiving support based on forward looking economic costs "only when we have sufficient validation that forward-looking support mechanisms for rural carriers produce results that are sufficient and predictable." Indeed, an important responsibility of the Joint Board is to oversee a Rural Task Force that will be evaluating the feasibility of a cost proxy model for rural carriers.

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[3]*State Members' Report on the Use of Cost Proxy Models*, CC Docket No. 96-45, March 26, 1997.

USTA wishes to emphasize its view that this Rural Task Force must also study the effect of providing federal support for only *25 percent* of the *difference* between proxy costs and a revenue based benchmark. Such an approach will leave the bulk of support for the states to provide. It may be extremely difficult for rural states to raise sufficient funds. Leaving 75 percent of the funding responsibility to the states must be carefully studied by the Joint Board as well. It would be a serious departure from the current program for rural companies.

A revenue-based benchmark, particularly one that includes revenues from access and discretionary services will only perpetuate implicit support contrary to the Act. The state members noted that a revenue benchmark may not be appropriate due to the changing marketplace.

The Commission adopted the state members' recommendation that the Joint Board appoint a rural task force to identify issues unique to rural carriers and to analyze the appropriateness of the proxy cost models for rural carriers. The cost proxy model is only part of the equation. USTA hopes that this letter highlights some of the other issues critical to rural telephone companies and urges the Joint Board to direct the rural task force to analyze all of the issues which affect the determination of universal service support for rural telephone companies. These companies are determined to continue to serve rural, residential customers with high quality, affordable telecommunications, information and advanced services. Universal service support is essential if these customers are to be part of the "haves" of the 21st century. USTA looks forward to working with the rural task force and the Joint Board on these important issues.

Cordially,

Roy M. Neel
President and CEO

cc: Joint Board Staff